



Whitepaper:

# Foreclosures and Short Sales – Examples From Actual Inspections Illustrate Necessity of Pre-Purchase Inspections on “As-Is” Properties

*By:*

John B. Elson, Arizona Licensed Inspector #42312  
ASHI Certified Inspector #243001  
Director of Education and Technical Leader  
Inspect-It 1<sup>st</sup> Property Inspection

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Inspect-It 1<sup>st</sup> Property Inspection  
7100 E. Pleasant Valley Rd.  
Suite 300  
Independence, OH 44131  
877.392.6278  
[www.inspectit1st.com](http://www.inspectit1st.com)

## **Purpose**

This whitepaper is intended to help clients understand the value of asking a [certified home inspector](#) to conduct an independent inspection of all properties, especially foreclosures and short sales. Following is a reference page with links to information about short sales, foreclosures, contracts and inspections.

## **Introduction**

The real estate market has changed dramatically in the past few years. In the greater Phoenix area, for example, home values increased roughly 47% in 2005 to a peak level in July, 2006. Since then, home values have plummeted and are only now bottoming out. Coupled with the increasing unemployment rate, foreclosures and short sales now comprise about 50-60% of all real estate activity in the metro area. In other parts of the country, foreclosures and short sales continue to be a major component of real estate transactions with national statistics showing at least 1/3 of all transactions involving a foreclosure or short sale.

By way of definition, a foreclosure is the term used when a mortgage is disinherited as a result of non-payment by the borrower. A short sale, in contrast, occurs in advance of a foreclosure and is the sale of real estate in which the proceeds of the sale are less than the balance owed on the loan that secures the property. In this case the lender agrees to take less than the amount owed on the debt in return for the sale of the property to a third party.

Some prospective buyers are under the misimpression that ‘as-is’ properties cannot be inspected prior to purchase. Others may believe a [home inspection](#) is not justified because the property is such a “great deal.” In fact, because of vacancy and/or neglect, foreclosed/short sale homes often have even more defects than average. While a buyer may intentionally be looking for a “fixer-upper,” it is impossible to make an informed decision and estimate ROI without a knowledgeable pre-purchase assessment.

## **Defects Found During Actual Inspections**

The following examples illustrate a few defects found on recent inspections.

### *Property #1*

A short sale home built in 1964 that was still partially occupied, and generally had been maintained by the seller, had more than 30 different components that needed some form of attention, repair or replacement. For example, the patio roof was improperly installed, including missing flashing detail at the home’s façade, such that water had been running down the exterior wall past the roof and into the patio (see Photo #1A below). One of the other major defects observed was the downstairs bathroom, which had no supply vent for heating/cooling. This may not be cause for concern in northern climates, but it creates quite a problem for homeowners in areas like the Southwest, especially if the bathroom is

heavily used and especially in the middle of the summer when exterior temperatures routinely reach more than 110 degrees.

Photo #1A - Patio Roof as viewed from the patio: Note the openings to daylight and the water stains.



Inspecting the roof on this home was both physically difficult and technically challenging. The home is located in a townhouse complex and while the patio roof is easily accessible, the second story is too high to reach with a standard ladder. Visual inspection was only possible by lifting the ladder from the ground while standing on the patio roof, then placing the ladder on the patio roof to access the upper roof. These types of activities are better left to a [professional inspector](#) who understands how to safely maneuver on and through a property, and knows what defects are a concern.

#### *Property #2*

This home was described as being an “immaculate remodel.” The Sellers’ Agent was on site and stated that the remodel company buys and sells homes as its exclusive business, doing “about 10-12 of these deals a year.”

This home was beautifully painted, with new laminate wood flooring, new carpeting and many new features throughout. The buyer, a single mother with a teenage daughter, was drawn to the neighborhood and the supposed pristine condition of the home. Although remodeled, more than 30 defects were found in the home. Despite having a new roof, the following defects were observed:

- Roof protrusions (drain waste vent pipes) with openings and cracks with insufficient roof mastic (cement) to protect the base of the protrusions from water intrusion.

- Improperly installed roofing shingles on top of the metal support flange for the roof mounted heat pump. Water could easily run under the shingles as a result of the installation.
- Many areas of patched roof sheathing and sheathing with holes in the attic space (See Photo #2A below).

All of these defects expose the roof to potential water intrusion and leaks.

Photo #2A - Patched sheathing with opening.



Additionally, the kitchen was equipped with a high end refrigerator in a refrigerator nook that was built especially to accommodate the unit. The unit has a built-in ice and water dispenser in the door, but when the unit was tested, no water was delivered. Investigation revealed there was no water line installed at the back of the refrigerator (See Photo #2B on the following page).

Photo #2B - Refrigerator alcove wall behind refrigerator: No water line is evident.



The alcove was a completely independent area that was not adjacent to any other kitchen wall. This repair alone entailed moving the refrigerator to a completely different section of the kitchen and changing the kitchen cabinetry so that the water supply could be hooked up without tearing out sections of the walls.

Finally, the home's laundry room had been constructed without a supply vent for heating and cooling and no exhaust duct venting for the clothes dryer. The dryer must have an exhaust vent to the exterior to run properly and to exit both moisture and heat. Since it didn't have a window, it was also cited for missing a ceiling ventilation fan.

*Summary of Common Defects Found in Foreclosed/Short Sale Homes:*

- Leaks at laundry room clothes washer supply valves that are running into the inset box and into the wall cavity. This causes significant property damage and may cause microbial growth.
- Sabotaged toilet tank hold down bolts. These bolts leak once the main water source is turned on and the tank is filled.
- Concrete poured down drains.
- Rodent and insect damage (especially in vacant properties).
- Air conditioning or heat pump units that are either missing or are missing major components such as copper coils or condensers.
- Missing plumbing fixtures and piping; leaking pipes and fixtures.
- Missing coolant in air conditioners (coolant is removed and sold).
- Missing "installed" appliances such as ovens, ranges and dishwashers.
- Missing pool vacuums and pool pumps.
- Missing and damaged electric garage door openers.

- Significant roof damage such as missing roof coverings, holes in the roof and improperly installed flashing and shingles making the roof prone to leaks.
- In general, patchwork repairs, including newly painted walls that are designed to conceal rather than correct defects.

### **Choosing Your Best Team**

Residential real estate transactions are complex and involve significant risk to both the buyer and the seller. It is the buyer's decision as to who he/she wants on his/her team. The leadership of a REALTOR® with advanced market knowledge, transaction expertise, formal written contract interpretation and negotiation skill is essential.

The independent [home inspector](#) brings a level of technical expertise to the table that is both unique and essential for the client. The home inspector is trained to provide an opinion [report](#) on the condition of the home's systems and components. This includes the structure, exterior, roof system, plumbing system, electrical system, heating, ventilation and air conditioning, interior, insulation and fireplaces/solid fuel burning appliances.

### **Conclusion**

These discoveries illustrate the real need for both REALTORS® and buyers to increase their vigilance in pursuing the truth about the condition of a home's systems and components. In today's real estate market, where most communities have an abundance of available homes, a buyer might be inclined to make a purchase of an "as is" home without the benefit of an independent [home inspection](#). Unfortunately, many of these homes have been vacant and bank-owned for months. During this time, the home's systems and components probably have not been regularly operated, monitored or maintained.

In a static environment, many things can go wrong. Seals that press against the seats of plumbing shut-off valves can dry out and then leak when water pressure is turned on. Heating, ventilation and air conditioning can fail due to lack of use. Garage doors that haven't been operated regularly can bind on rails and hinges and can be seriously damaged due to lack of maintenance and lubrication. Appliances left dormant can malfunction after being operated for the first time in many months.

Buyers who initially balk at the idea of spending money to conduct a professional, independent home inspection often use the logic that "the home is being sold 'as is' so they aren't going to fix anything anyway."

Imagine the client and how she might feel after buying her "immaculate remodel", only to find that the roof leaks, she has no way to make ice in her refrigerator, and that her laundry room dryer cannot be used because there is no exhaust vent duct to the exterior.

In these challenging times, the best way for a buyer to protect his/her investment is to contract the services of a [qualified, certified home inspector](#) to perform a thorough, unbiased inspection and to produce a detailed report. This will provide the buyer with peace of mind.

*“As an Accredited Buyer's Representative it is my fiduciary duty to act in my client's best interests. Part of that responsibility is recommending services that are wise investments and will benefit my clients in the future. When shopping for a home, clients will ask about foreclosures. My first comment is that they are sold in "as is" condition, meaning that the banks will not make repairs and most short sale owners do not have the funds to make any repairs. It is my duty to always recommend a home inspection by a competent certified home inspector who knows what to look for.*

*The individual knowledge of a homeowner is not enough to inspect a home and evaluate it thoroughly. In the current market over half our sales are short sales and foreclosures. Home inspectors are often faced with unusual circumstances, i.e. vandalized components and unsafe conditions. It is these types of homes that require a thorough third party certified home inspection so that homeowners can make educated decisions regarding their purchase. That's the reason I recommend an Inspect-It 1<sup>st</sup> property inspector who will do a thorough home inspection on these types of homes. I know this particular property inspector will be wary of the unusual circumstances that coincide with these homes.”*

Jan Green, REALTOR<sup>®</sup>, ABR, EcoBroker, CDPE  
RE/MAX Excalibur  
Scottsdale, Arizona  
602-620-2699

[jan@gotgreen.info](mailto:jan@gotgreen.info)  
[www.JanGreenAZHomes.com](http://www.JanGreenAZHomes.com)

[REFER TO NEXT PAGE FOR LINKS TO ADDITIONAL INFORMATION]

## **Links to Further Information**

### *Foreclosure Related Information*

About.com

<http://homebuying.about.com>

Business Week

<http://www.businessweek.com/investor/realestate/>

National Association of Foreclosure Prevention Professionals

<http://www.nafpp.org>

National Association of REALTORS® – Field Guide to Foreclosures

<http://www.realtor.org/library/library/fg329>

RealtyTimes – Buyer’s Advice

<http://realtentimes.com/rtpages/BuyersAdvice.htm>

### *Home Inspection Information*

American Society of Home Inspectors (ASHI)

[www.ashi.org](http://www.ashi.org)

Inter-National Association of Certified Home Inspectors (InterNACHI)

[www.internachi.org](http://www.internachi.org)

National Association of Home Inspectors

[www.nahi.org](http://www.nahi.org)

To locate the closest Inspect-It 1<sup>st</sup> certified home inspector nearest you, please use our **Find A Home Inspector** tool at [www.inspectit1st.com](http://www.inspectit1st.com).